

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: December 4, 2003

Recommended Actions:

SUI Reimbursement Resolution 1. Adopt the following:

A Resolution declaring an official intent under Treasury Regulation 1.150-2 to issue debt to reimburse the University of Iowa Utility System for certain original expenditures paid in connection with specified projects.

(ROLL CALL VOTE)

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|------------------------|---|
| Master Lease Renewal | 2. Approve extension of the master lease agreement with Wells Fargo for the three-year extension period provided under the current agreement. |
| Master Lease Financing | 3. Authorize Iowa State University to utilize master lease financing in the amount of \$850,000 to provide deferred maintenance improvements to four concession/toilet buildings at Jack Trice Stadium. |
| Investment Policy | 4. Approve for final reading Board of Regents <u>Policy Manual</u> §7.04, the investment policy. |
| | 5. Accept the remainder of the report of the Banking Committee. |
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Executive Summary:

Approvals The Banking Committee materials have been furnished to all Board members. During its meeting on December 15, 2003, the Banking Committee is scheduled to consider approval of:

- The minutes from the November 2003 Banking Committee meeting
- Reimbursement Resolution for the SUI Chilled Water Plant
- Renewal of Master Lease Agreement
- Master Lease Financing for Jack Trice Stadium deferred maintenance project
- Changes to Investment Policy

Reports The Banking Committee is scheduled to receive reports on:

- Savings from Refunding Bonds
- State Audit Reports
- External Audit Report
- Internal Audit Reports

Background and Analysis:

Minutes The minutes of the November 2003 Banking Committee meeting are included with the Banking Committee materials.

Reimbursement
Resolution The University of Iowa requests adoption of a resolution which will permit the University's Utility System to be reimbursed from a future Utility System bond issue for expenditures associated with the West Campus Chilled Water Plant project.

The Board approved the project description and total budget (\$39,400,000) for the West Campus Chilled Water Plant project at its October 2003 meeting.

The calendar year 2004 bond issuance schedule, approved by the Board in November 2003, includes a Utility System Revenue Bond sale for the project in March 2004.

The reimbursement resolution is being submitted at this time to ensure maximum reimbursement capability under regulations of the federal Internal Revenue Code.

Extension of Master
Lease Agreement The Board has established a master lease agreement to provide short-term financing (3 to 10 years) for real and personal property.

The current master lease agreement operated through Wells Fargo became effective on January 1, 2002, for an initial two year period with a provision to renew for one additional, three-year period upon mutual consent of both parties.

The Board Office, the Regent institutions, the Board's financial advisor, Springsted Inc., and the Board's bond counsel, Ahlers Law Firm, recommend extension of the agreement with Wells Fargo for the additional term; Wells Fargo has agreed to the extension.

Master Lease
Financing for ISU

Iowa State University requests approval to utilize \$850,000 in master lease financing to provide deferred maintenance improvements to the northeast, southeast, and two southwest concession/toilet buildings at Jack Trice Stadium.

The University proposes to finance the project over a ten-year period, with the final interest rate set per the master lease agreement at the time the borrowing commitment is executed.

- The estimated interest rate is approximately 4.30 percent, which would result in semi-annual payments of approximately \$52,467.

Beginning in 2003, a \$15 stadium facilities fee was added to the football season ticket prices. Revenue from the facilities fee would provide the funding for the semi-annual lease payments. If the concession stand portion of the project does not qualify for tax exempt financing, funding would be paid from existing athletic revenues.

In April 2003, the Board approved master lease financing for the Jack Trice Stadium – Exterior Stair Replacement project, which requires master lease payments totaling \$70,632 per year for a term of five years. These payments are also made from the stadium facilities fee revenue.

If \$850,000 of the \$950,000 project cost for the deferred maintenance improvements is financed from the master lease, the annual master lease payments for both Jack Trice Stadium improvement projects would total approximately \$175,500.

The University reports that the budgeted FY 2005 facilities fee revenue is \$230,000.

Savings from Bond
Refundings

Present value savings (which are net of issuance costs) from refunding bonds total \$8.1 million for calendar years 2001 – 2003, of which \$5.7 million in savings were from Academic Building Revenue Bond Refundings.

The savings from Academic Building Revenue Bond Refundings directly reduce the tuition replacement appropriations needed from the state in future years, all other factors being equal.

This report, which is an update of the report provided in September 2003, includes the present value savings from the sale of SUI telecommunications bonds in November 2003.

Quarterly Investment and Cash Management Reports	<p>The Regent institutions maintain two investment portfolios — operating and endowment/Quasi-endowment. Both portfolios include restricted and unrestricted funds. As of September 30, 2003, the Regent combined operating and endowment portfolios total \$1.3 billion.</p>
Operating	<p>The market value of the combined operating portfolios, as reported by the Regent institutions, total \$897.8 million as of September 30, 2003, and represent a point in time during operations. The universities operating portfolios were a mix of underperformance and outperformance compared to industry standards for the quarter. The two external fund managers for the operating portfolios, BlackRock and Wellington, outperformed and equaled industry standards, respectively.</p>
Endowment	<p>Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment/quasi-endowment portfolio, which totaled \$382.1 million for the quarter.</p> <p>The University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios totaled \$177.6 million and \$110.2 million, respectively, as of September 30, 2003. The combined investment managers' returns for the quarter were 2.3% for SUI and 2.2% for ISU, while the blended asset allocation benchmark posted returns of 2.9%. The SUI endowment portfolio had investment gains of \$4.1 million for the quarter while ISU had gains of \$2.4 million.</p> <p>The SUI quasi-endowment totaled \$94.4 million and returned –0.1% for the quarter ended September 30, 2003, which slightly outperformed the benchmark of –0.2%.</p>
Investment Issues	<p>One corporate bond held by Reams Asset Management, which has been below investment grade, was downgraded further as of the quarter ended September 30, 2003. Reams continues to hold the bond.</p> <p>The University of Iowa internal auditors reported that:</p> <ul style="list-style-type: none">• SUI's operating portfolio was not within the maturity allocation ranges currently in place in the Board's investment policy; and• Seven securities totaling \$4.9 million were purchased for the operating portfolio that exceed the maximum maturity term of the current policy. These investments would comply with the proposed changes to the investment policy initially presented to the Board for consideration in October 2003 and for approval this month. <p>The internal auditors verified that remaining investment purchases and holdings for the quarter ended September 30, 2003, were in compliance with respective Board and institutional investment policies.</p>

National Investment Issues	<p>In response to the recent publicity regarding trading scandals, Wilshire has issued a report on industry trading practices and issues specific to two of the Board of Regents' portfolio managers, Alliance Capital and Invesco.</p> <ul style="list-style-type: none">• Alliance Capital is currently the subject of a regulatory investigation for mutual fund trading practices.• Invesco has been charged with improper mutual fund trading. Wilshire reports that there is no reason to believe that the institutional management group or the portfolios being managed for the Board of Regents by Invesco is affected by this activity. A detailed manager research report on Invesco is in process.
Revised Investment Policy	<p>The Board, over the past year, has established a process for updating its Policy Manual, whereby changes are presented to the Board at one meeting but are not approved until a subsequent meeting. This procedure allows time for Board review and additional comments prior to final approval.</p>
Review	<p>Under <u>Policy Manual</u> §1.05, the Board has delegated to the Banking Committee the monitoring of institutional investment and treasury management practices.</p> <p>The Banking Committee reviewed the initial changes to the Investment Policy (§7.04) at its October 2003 meeting. At that time, members requested further modifications to the proposed policy as well as input from the various fund managers authorized by the Board.</p> <p>Board staff, Regent institution treasurers, and Wilshire Associates, the Board's investment advisor, have reviewed the proposed changes to the Board's investment policy.</p>
State Audits – ISU Revenue Bond Funds	<p>Revenue Bond Fund audit reports are presented to the Banking Committee as required by Board policy.</p> <p>The State Auditor conducted audits on ten bonded enterprises at Iowa State University for the year ended June 30, 2003. These audits indicate that the financial statements of each of the revenue bond funds were presented fairly in all material respects.</p> <p>No findings were reported regarding financial or compliance issues with the revenue bond resolutions.</p>

External Audit -
Quad Cities

Doyle & Keenan, PC of Davenport, Iowa, conducted an audit of the Quad-Cities Graduate Study Center to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

The audit report concluded that the financial statements presented fairly, in all material respects, the financial positions of the Quad-Cities Graduate Center as of June 30, 2003 and 2002, and changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

There were no reported findings.

Internal Audit
Reports

Completed institutional internal audit reports are presented to the Banking Committee, as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

One new audit report on Sponsored Programs is presented this month from Iowa State University.

The Status of Internal Audit Follow-Up identifies 19 internal audit reports, 17 of which require follow-up. Three follow-up reports are presented this month: two from the University of Iowa – University Operations and one from Iowa State University; two are closed and one at the University of Iowa remains open.


Jean A. Friedrich

Approved: 
Gregory S. Nichols